



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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July 7, 2009

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **SERENITY INFANT CARE HOMES – A DEPARTMENT OF MENTAL
HEALTH SERVICE PROVIDER**

We completed a fiscal and program review of Serenity Infant Care Homes (Serenity or Agency) a Department of Mental Health (DMH) service provider.

Background

DMH contracts with Serenity to provide mental health services which include interviewing program participants, assessing their mental health needs and developing and implementing a treatment plan. Serenity's office is located in the Fifth Supervisorial District.

DMH paid Serenity on a cost reimbursement basis between \$1.65 and \$3.95 per minute of staff time (\$99 to \$237 per hour) for services or approximately \$830,000 for Fiscal Year (FY) 2007-08.

Purpose/Methodology

The purpose of the mental health program review was to determine whether Serenity complied with its contract terms and appropriately accounted for and spent DMH funds providing the services outlined in their County contract. We also evaluated the adequacy of the Agency's accounting records, internal controls and compliance with federal, State and County guidelines. In addition, we interviewed a number of the Agency's staff.

Results of Review

Serenity maintained documentation to support the billed service minutes and used qualified staff to provide program services. In addition, the Agency completed Progress Notes in compliance with the County contract. However, the Agency did not always comply with other program and contract requirements. Specifically:

- Serenity charged DMH \$66,669 in unsupported costs. Specifically, the Agency's costs on their Cost Report exceeded their accounting records by \$66,669 for FY 2006-07.
- Serenity did not maintain a written Cost Allocation Plan.
- Serenity charged DMH \$2,037 (\$1,281 + \$756) in questioned costs.
- Serenity deviated from contracted service levels within specific service categories without prior written authorization from the DMH Director. Specifically, the Agency reduced the amount of Target Case Management Services by 22,423 units (97%) and increased their Medication Support Services provided by 4,823 units (77%). DMH subsequently approved the change in service levels.

We have attached the details of our review along with recommendations for corrective action.

Review of Report

We discussed the results of our review with Serenity and DMH on February 3, 2009. In their attached response, the Agency indicated that they agree with our recommendations and will reduce their accounting records and Cost Report by the \$68,706 (\$66,669 + \$2,037) in questioned costs. DMH will follow up to ensure the Agency implements the recommendations.

We thank Serenity management for their cooperation and assistance during this review. Please call me if you have any questions or your staff may contact Don Chadwick at (213) 253-0301.

WLW:MMO:JET:DC

Attachment

c: William T Fujioka, Chief Executive Officer
Dr. Marvin J. Southard, Director, Department of Mental Health
Jennifer Choctaw, Executive Director, Serenity Infant Care Home
Randy Argo, Chairman, Board of Directors, Serenity Infant Care Home
Public Information Office
Audit Committee

**CONTRACT COMPLIANCE REVIEW
SERENITY INFANT HEALTH CARE
FISCAL YEAR 2007-08**

BILLED SERVICES

Objective

Determine whether Serenity Infant Home Care (Serenity or Agency) provided the services billed in accordance with their contract with the Department of Mental Health (DMH).

Verification

We judgmentally selected 30 billings totaling 3,616 minutes from 60,461 service minutes of approved Medi-Cal billings from January and February 2008. We reviewed the Assessments, Client Care Plans and Progress Notes maintained in the clients' charts for the selected billings. The 3,616 minutes represent services provided to 20 program participants.

Results

The Agency maintained documentation to support the services outlined in the County contract. In addition, the Agency completed Assessments, Client Care Plans and Progress Notes in compliance with the County contract. However, for one (33%) of three court dependent clients sampled, the Agency prescribed and/or administered psychotropic medication and did not maintain court authorization to administer the medication, as required by the County contract.

Subsequent to our review, the Agency obtained court authorization.

Recommendation

1. **Serenity management maintain court authorization to prescribe and/or administer psychotropic medication to dependent wards of the Court.**

STAFFING LEVELS

Objective

Determine whether the Agency maintained the appropriate staffing ratios for applicable services.

We did not perform test work in this section as the Agency does not provide services that require compliance with staffing ratios.

Recommendation

None.

STAFFING QUALIFICATIONS**Objective**

Determine whether Serenity's treatment staff possessed the required qualifications to provide the services.

Verification

We reviewed the California Board of Behavioral Sciences' website and/or the personnel files for 11 out of 12 Serenity treatment staff who provided services to DMH clients during January and February 2008.

Results

Each employee in our sample possessed the qualifications required to deliver the services billed.

Recommendation

None.

SERVICE LEVELS**Objective**

Determine whether Serenity's reported service levels varied significantly from the service levels identified in the DMH contract.

Verification

We obtained a report from the Agency of paid Medi-Cal billings for July 2007 through April 2008 and compared it with the Agency's level of services identified in the contract for the same period.

Results

Overall, Serenity operated within its contracted amount of \$830,000. However, within specific service categories the Agency substantially deviated from contracted service levels without prior written authorization from the DMH Director. Specifically, the Agency provided 22,423 units (97%) less Targeted Case Management Services than they were contracted to provide. In addition, the Agency exceeded its contracted Medication Support Services by 4,823 units (77%). The Agency indicated that they did

not realize that they were required to obtain authorization from DMH prior to deviating from their contracted service levels. DMH subsequently approved the change in service levels.

Recommendation

2. **Serenity management obtain written authorization from DMH prior to deviating from contracted service levels.**

CASH/REVENUE

Objective

Determine whether cash receipts and revenue were properly recorded in the Agency's financial records and deposited timely in their bank account. In addition, determine whether there are adequate controls over cash, petty cash and other liquid assets.

Verification

We interviewed Serenity's management and reviewed the Agency's financial records. We also reviewed the Agency's March 2008 bank reconciliations for three bank accounts.

Results

Serenity properly recorded and deposited cash receipts timely. In addition, the Agency prepared monthly bank reconciliations. However, the bank reconciliations contained the following deficiencies:

- The bank reconciliation for their operating account contained 21 checks totaling \$3,175 that were outstanding for over one year.
- The bank reconciliation for their payroll account contained six checks totaling \$2,440 that were outstanding for over one year.
- The preparer did not sign the bank reconciliations for two of the three bank accounts.
- A manager did not review and approve the three bank reconciliations.

Recommendations

Serenity management:

3. **Resolve outstanding checks in a timely manner and credit the appropriate funding sources, if necessary.**

4. **Ensure the preparer signs the bank reconciliations.**
5. **Ensure that a manager reviews and approves bank reconciliations.**

COST ALLOCATION PLAN

Objective

Determine whether Serenity's Cost Allocation Plan is prepared in compliance with the County contract and the Agency used the Plan to appropriately allocate shared program expenditures.

Verification

We reviewed the Agency's Cost Allocation Plan, interviewed management and reviewed the Agency's accounting records.

Results

Serenity did not maintain a written Cost Allocation Plan. In addition, the Agency allocated \$1,281 to DMH for administrative salary expenditures for staff that did not provide services to the DMH program.

The Agency subsequently developed a Cost Allocation Plan.

Recommendations

Serenity management:

6. **Allocate indirect costs to DMH for Fiscal Year (FY) 2007-08 in accordance with the newly developed Cost Allocation Plan; submit a revised Cost Report to DMH; and repay DMH for any over billed amounts including the \$1,281 identified in our report.**
7. **Ensure that only allowable expenditures are included in the costs allocated to DMH.**

EXPENDITURES

Objective

Determine whether program expenditures were allowable under the County contract, properly documented and accurately charged to the DMH program.

Verification

We reviewed financial records and documentation for 15 non-payroll expenditure transactions totaling \$14,508 between July 2007 and March 2008.

Results

The Agency charged the DMH program \$756 for one expenditure that was not supported by a receipt or invoice. Management indicated that the expenditure was for toys and learning equipment for program clients. However, they could not provide supporting documentation.

Recommendations

Serenity management:

8. Provide documentation to support the \$756 or revise their FY 2007-08 Cost Report to reduce their expenditures and repay DMH for any excess amount received.
9. Ensure that program expenditures are supported by adequate documentation.

FIXED ASSETS**Objective**

Determine whether fixed asset costs charged to DMH program were allowable under the County contract, properly documented and accurately billed.

We did not perform test work in this area, as the Agency did not charge DMH for fixed asset expenditures between July 2007 and March 2008.

Recommendation

None.

PAYROLL AND PERSONNEL**Objective**

Determine whether payroll expenditures were appropriately charged to the DMH program. In addition, determine whether personnel files are maintained as required.

Verification:

We traced payroll expenditures for 10 employees totaling \$18,258 to the payroll records and time reports for the bi-monthly pay period ending March 15, 2008. We also reviewed the 15 employees' personnel files and interviewed 13 staff.

Results

Serenity's direct program salaries were appropriately charged to the DMH Program. However, Serenity needs to strengthen their internal controls over payroll and personnel. Specifically:

- The same staff person records payroll transactions and distributes the payroll checks.
- Eight (53%) of 15 employees did not sign their timecards.
- A supervisor did not review and approve six (40%) of 15 timecards.

Recommendations**Serenity management:**

10. Separate the duties of recording payroll transactions and distributing payroll checks.
11. Ensure that each employee signs their timecard.
12. Ensure that a supervisor reviews and approves employee timecards.

COST REPORT**Objective**

Determine whether Serenity's FY 2006-07 Cost Report reconciled to the Agency's financial records.

Verification

We traced the Agency's FY 2006-07 Cost Report to the Agency's general ledger.

Results

Serenity's accounting records did not support the amount billed to DMH. Specifically, the Agency's total DMH costs on their Cost Report exceeded the Agency's accounting records by \$66,669. Agency management indicated that they intend to re-submit their

Cost Report for FYs 2006-07 and 2007-08 because of the errors noted during our review and additional program and administrative costs that they excluded from the total DMH costs reported to DMH.

Recommendation

13. Serenity management ensure that their annual Cost Report is supported by their accounting records prior to submitting the Cost Report to DMH.



March 5, 2009

Wendy L. Watanabe, Acting Auditor-Controller
Countywide Contract Monitoring Division
Los Angeles County Department of the Auditor Controller
1000 S. Fremont Ave., Unit 51
Alhambra, Ca. 91803-4737

RE: Serenity Infant Care Homes, Inc.
Contract Compliance Review
Agency Response and Corrective Action Plan

Dear Ms. Watanabe,

We are in receipt of the report from the Auditor-Controller pertaining to the fiscal and program review of our contract with the Department of Mental Health. This letter serves as our formal response to those findings and a plan for corrective action where necessary.

Billed Services

Auditor Controller Results

Overall, the agency maintained documentation to support the services outlined in the County contract. The agency completed assessments, client care plans and progress notes in compliance with the County contract. However, one of the three dependent court clients sampled did not have court authorization to administer medication in the file.

Subsequent to the review, the agency obtained court authorization.

Recommendation:

Serenity management shall maintain court authorization to prescribe and/or administer psychotropic medication to dependent wards of the court.

Serenity Response:

Serenity's psychiatrist and clinical supervisor were immediately informed of this finding. An internal chart review of all clients receiving psychotropic medication was performed to ensure that court authorization is documented.

Service Levels

Auditor Controller Results

Overall, Serenity operated within its contracted amount of \$830,000. However, within specific service categories the Agency substantially deviated from the contracted service levels without prior written authorization from the DMH Director. Specifically, the agency provided 22,423 units (97%) less Targeted Case Management Services than they were contracted to provide. In addition, the agency exceeded its contracted Medication Support Services by 4,823 units (77%).

Recommendation

Serenity management obtain written authorization from DMH prior to deviating from contracted service levels.

Serenity Response

Targeted Case Management

Although the mental health therapists performed Targeted Case Management without billing for them, Serenity is now utilizing a case manager to perform these services.

Medication Support

Medication Support Services increased in correlation with community referrals for adolescents presenting with symptoms requiring medication support.

We are closely monitoring our service levels to ensure compliance with contractual limits and or requesting written authorization from DMH prior to contract deviations.

Cash/Revenue

Auditor Controller Results

Serenity properly recorded and deposited cash receipts timely. In addition, the Agency prepared monthly bank reconciliations. However, the bank reconciliations contained the following deficiencies:

- Operating account contained 21 checks totaling \$3,175 that were outstanding for over one year.
- Payroll account contained six checks totaling \$2,440 that were outstanding for over one year.
- Preparer did not sign the bank reconciliations for two of the three bank statements and three bank statements were not reviewed or approved by a manager.

Recommendation

Serenity management should resolve outstanding checks in a timely manner and credit the appropriate funding sources, if necessary.

Ensure that the preparer signs all the bank reconciliations.

Ensure that bank reconciliations are reviewed and approved by a manager.

Serenity Response

Management is working with our auditors to remove these transactions from our accounting records and has implemented the following policies regarding bank reconciliations and uncleared checks:

- 1). Timely resolution of reconciling items. All uncleared checks will be researched and resolved if not cleared from the register within 6 months.
- 2). Signatures and Approvals – Bank statements will be reviewed and signed by management. Reconciliations will be reviewed and approved by management and signed by both the preparer and reviewer.

Cost Allocation Plan

Auditor Controller Results

Serenity did not maintain a written Cost Allocation Plan. In addition, the agency allocated \$1,281 to DMH for administrative salary expenditures for staff that did not provide support to the DMH program.

The Agency subsequently developed a Cost Allocation Plan.

Recommendations

Serenity's management should:

1. Implement their Cost Allocation Plan,
2. Ensure that only allowable expenditures are included in the costs allocated to DMH,
3. Allocate indirect costs to DMH for Fiscal Year 2007-08 in accordance with the newly developed Cost Allocation Plan, submit a revised Cost Report to DMH and repay DMH for any overbilled amounts including the \$1,281 identified in our report.

Serenity Response

Serenity did not have a written procedure for cost allocation in place at the time of the Auditor controller's audit in May 2008. However, at the recommendation of the auditors, significant adjustments were immediately made to our cost allocation procedures and implemented in preparation of our 2007-08 Cost Report which was submitted in September 2008. Additionally, a written Cost Allocation Plan was developed and presented to the Auditor Controller at the February 2009 exit conference. As a result, the recommendations of the auditor controller have been addressed as follows:

1. Serenity's written Cost Allocation Plan has been implemented to ensure that only allowable expenditures are included in the costs allocated to DMH, and
2. Adjustments to the 2007-08 financial statements with respect to the allocation of \$1,281 in administrative salary expenditures were made prior to submission of our 2007-08 Cost Report. As a result, DMH was not overbilled for the amounts identified in the report.

Expenditures

Auditor Controller Results

The agency charged the DMH program \$756 for one expenditure that was not supported by a receipt or invoice. Management indicated that the expenditure was for play equipment for program clients. However, they could not provide supporting documentation.

Recommendation

Provide documentation to support the \$756 expenditure or revise the FY 2007/08 Cost Report to reduce their expenditures and repay DMH for any excess amount received. Also, ensure that expenditures are supported by adequate documentation.

Serenity Response

At the time of audit, our agency provided the auditors with an agency purchase order (check request) which itemized the purchased equipment in addition to a copy of the cancelled check written to the vendor. We acknowledge that a copy of the sales receipt from the vendor was misplaced, however, the equipment in question is on the premises and used daily for our Therapeutic Learning Center. We will excluded the cost of the equipment in our revised cost report as recommended. Additionally, tighter controls have been implemented to ensure that all expenditures are supported by adequate documentation.

Payroll and Personnel

Auditor Controller Results

Serenity's direct program salaries were appropriately charged to the DMH program. However, Serenity needs to strengthen their internal controls over payroll and personnel. Specifically, 1). the same staff person records payroll transactions and distributes the payroll; 2). Eight of 15 employee timecards were not signed by the employee and 3) six of 15 timecards were not reviewed and approved by a supervisor.

Recommendations

Serenity management should separate the duties of recording payroll transactions and distributing payroll checks, ensure that timecards are assigned by the employee and reviewed and approved by a supervisor.

Serenity Response

The Agency has implemented tighter internal controls with respect to the recording and distribution of payroll. Payroll is now delivered to and reviewed by the executive director and subsequently distributed to the employees by the accounting assistant. Payroll charges to the accounting system are prepared by the Finance Director.

Additional controls have been put in place to ensure that timecards are signed by the employee. Supervisors have been retrained on timecard procedures to ensure that timecards are reviewed and signed prior to submitting them for timekeeping.

Cost Report

Auditor Controller Results

The agency's total DMH costs on their cost report exceeded the Agency's accounting records by \$66,669. Agency management indicated that they intend to re-submit their Cost Report for FYs 2006-07 and 2007-08 because of errors noted in our review and additional program and administrative costs that they excluded from the total DMH costs reported to DMH.

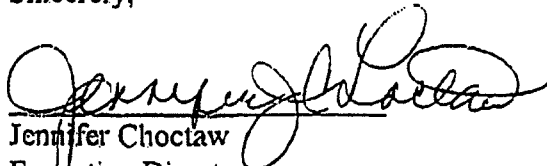
Recommendation

Serenity management shall insure that their annual cost report is supported by their accounting records prior to submitting the Cost Report.

Serenity Response

In July 2008, our agency attended a training conducted by the Auditor Controllers office which explained and clarified the Auditor Controllers position regarding financial reporting and cost allocation. Based upon that training, our Agency made substantial changes in the manner in which costs are allocated to the various programs. Specifically, we developed and implemented a comprehensive cost allocation plan that would facilitate the accurate reporting of our annual Cost Report. We are currently in the process of revising our 2006-07 and 2007-08 Cost Reports with the newly developed cost allocation plan as recommended by the auditor controller. Anticipated completion date- April 10, 2009.

Sincerely,


Jennifer Choctaw
Executive Director


Dianne Carroll
Finance Director